OFFICE OF THE MAYOR
SAN FRANCISCO

JOSEPH L. ALIOTO

September 28, 1973

The Honorable John J. Sparkman, Chairman
Senate Committee on Banking, Housing
and Urban Affairs
Senate Office Building
Washington, D. C. 20510

Dear Senator Sparkman:

The Senate and House of Representatives are currently receiving various alternative housing proposals associated with new legislation and studies initiated by the executive branch. The City of San Francisco is implementing two locally sponsored housing programs which may be of interest to your Committee during its review of housing alternatives. These programs demonstrate, we think, how cities given adequate resources can establish innovative approaches in meeting local housing needs.

I am enclosing for your review (1) an explanation of the City's purchase and financing of the Midtown Park Apartments (modest priced housing for families), and (2) a description of a locally assisted code enforcement program which is replacing the terminated Federally Assisted Code Enforcement (FACE) program. Admittedly, we have not solved the shortage of funds for FACE program administration which the Department of Housing and Urban Development (HUD) also cut off.

The first local program is similar to FACE in that it is designed to provide individuals in deteriorating neighborhoods with low interest loans to bring their housing and thus the neighborhood up to code standards.

Under the local program the City of San Francisco continues to make public improvements in the target neighborhoods funded through the City's General Fund. In order to provide loans for the private property owner the City borrows funds from a private lending institution at a lower rate of interest. This is possible because interest rates on municipal obligations are tax exempt (26 USC Section 103). The City then loans out the money to the private home owner at a rate just over the rate at which the City borrowed the money. This enables the City to cover the loan administrative costs and to create a bad debt reserve fund. The City then pledges to the bank as security the amounts received in repayment of the loans, the mortgages, and the money in the bad debt fund. Through this method of financing the individual is able to take advantage of low interest loans comparable to those which were available under FACE without

having to involve the Federal government and without running the risk of increased burdens for the local taxpayer as the money involved as security is not part of the City's General Fund. An advantage of this program is that in implementing it the City was able to use the talents of the same people who were administering the FACE program. Thus the City was spared expense of the start up costs. As noted above, we are still flying blind on administrative costs (city building inspection payroll), heretofor 100% financial by HUD.

The legal issues which were raised when San Francisco adopted a plan of local housing rehabilitation financing are typical of what other cities might be confronted with if they undertook a similar program. The central issue is whether a city has the authority to incur indebtedness or pledge city or county funds as security for the purpose of a private property owner's loan for housing rehabilitation. In San Francisco's case the question was raised in four ways. Article 13 Section 25 of the California Constitution prohibits the state legislature from authorizing any city and county to pledge the funds of the city and county for a private purpose. Whether subsidizing loans for private property rehabilitation is a public purpose can be resolved if the board of supervisors (or city council) as the proper legislative body determines that there is a public purpose involved in the city loaning money to property owners for housing rehabilitation. Such a finding would make Article 13 Section 25 inapplicable. Because it is a legislative determination, the decision would be upheld as long as there is a reasonable basis for the decision.

Article 13 Section 40 and San Francisco City Charter Section 6.304 both place limitations on the authority of a city to incur indebtedness. Both these sections are designed to protect the taxpayer from the city placing improvident burdens upon future tax revenues. However, the funds involved are not general funds (those obtained through property, use, sales, or license taxes) and; therefore, this method of financing comes under an exception developed through case law which excludes special funds from such limitations. The reasoning behind this exception is that a special fund does not require voter approval because it places no burden on the general tax revenues. Thus the purpose behind Article 13 Section 40 would not be served by limiting the city's authority regarding special funds.

The city's appropriation of an amount to establish an initial bad debt fund does not interfere with limitations placed upon it by Article 13 Section 40 or Charter Section 6.304 as long as there is no promise to make further appropriations. San Francisco Charter Section 7.300 provides for the general laws of the state to apply regarding the City's authority to create bonded indebtedness. In California the general laws do not specifically authorize a city to incur indebtedness for the purpose of loaning money to private individuals to rehabilitate housing. California has sought to overcome this problem through legislation specifically creating such authority in the cities. This legislation is presently awaiting the governor's signature.

The second innovative San Francisco housing program illustrates the City's ability to salvage defaulted housing projects. The case of Midtown Park Apartments demonstrates how cities can be successful in housing finance and management.

Midtown Park Apartments was originally designed to provide modest-income families with co-operative garden apartments in the inner city. A private firm financed the construction of the housing project under the Federal Housing Administration (FHA) Section 213 for market rate co-operative housing. When the company defaulted on the mortgage, the City acquired the property. The acquisition was accomplished by establishing a non-profit corporation which acquired the property from FHA and then, upon FHA approval, transferred title to the City. The City then leased the property back to the non-profit corporation which manages it. The mortgage was acquired at a substantially lower rate of interest than is obtainable on the open market. This was possible because of an IRS ruling which exempted interest on the mortgage from the gross income of the mortgage and because of the City's guarantee of the rent rolls. When the City leased back the property to the non-profit corporation the City agreed to relieve the corporation of possessory interest tax liability created what in essence is a double tax break on which the savings is passed to the tenant in the form of lower rents.

The advantages of this program are twofold. First, it provides adequate housing for moderate-income families. Second, because the City retains title, it has the authority to control the administration and management of the property.

The development is managed by a board of directors comprised of Midtown Park residents and approved by the Board of Supervisors. The residents take great pride in the complex. The vacancy rate, once high, is now close to zero. Under the resident board's management the apartments are beautifully maintained at a fraction of the former cost of management.

At present the residents are considering purchasing the development from the City for conversion into condominium housing. This would fulfill the original goal established ten years ago and would encourage San Francisco to continue financial assistance programs to rescue defaulted housing projects thus expanding housing resources for low and modest income families.

(Enclosed are copies of the report, Midtown Park, which provides a general history and more details on this housing development, from the original construction to the current management by a corporation of residents).

Sincerely,

Joseph L. Alioto

Joseph L. Alioto
Mayor

MIDTOWN PARK

Acknowledgment

The purchase of Midtown Park by the City of San Francisco and the subsequent management of the units by an organization of residents involved the following individuals and organizations:

City and County of San Francisco

Mayor Joseph L. Alioto
John H. Tolan, Jr., Deputy for Development
Wesley Slade, Special Assistant for Housing & Relocation
Wallace Wortman, Director, Department of Real Estate

United States Federal Government

Philip N. Brownstein, Assistant Secretary for Mortgage Credit and Housing Commissioner, Department of Housing and Urban Development
Jack G. Tuggle, Assistant Director, San Francisco Office, Department of Housing and Urban Development
Stanley S. Surrey, Assistant Secretary, Department of Treasury

Midtown Park Board of Directors

Clarence Green, President
James Gibbs, Vice President (to December 1970)
Claudine Burns, Treasurer
Robert Love
Nancy Van Houffel (to August 1970)
Frances Huff

The mortgage for Midtown Park was handled by Penn Mutual Life Insurance Company with local assistance from the Marble Mortgage Company of San Francisco.

TABLE OF CONTENTS

	Page
Original Development	1
Early Management and Bankruptcy	4
City Purchases Midtown Park	9
Initial Changes and Building Improvements	13
Current Program of Physical Improvements	16
A Proposal for Home Ownership	21
Conclusion	22
Appendix	

ORIGINAL DEVELOPMENT

The case history of Midtown Park provides a descriptive account of some unique development and management processes associated with housing families in the inner city. It tells something about efforts in the early sixties to house modest-income families, something about housing finance and the Federal Housing Administration, and something about the delicate balance of undertaking a cooperative housing venture. More important, however, the Midtown Park story tells about a City's initiative and ability to salvage defaulted housing projects, and, in the end, it tells a good deal about the importance of sound management and a sense of pride and sincere interest in the development by the residents themselves. The Midtown Park story is a mixture of housing successes and failures.

Midtown Park is located in San Francisco's Western Addition on the block bounded by Scott, O'Farrell, Divisadero and Geary Streets, only minutes away from the downtown area by regular public transportation. It is part of the Western Addition A-1 Redevelopment Project. On September 12, 1962, the San Francisco Redevelopment Agency sold this parcel of land to Barton-Western, Inc. for the construction of cooperative garden apartments. Built during 1963-1964 Midtown Park was an early attempt of urban redevelopment to provide home ownership opportunities for modest income families in the central city.

Midtown Park consists of a total of 140 dwelling units of which 24 units are 1-bedroom, 56 units are 2-bedrooms, and 60 units are 3-bedrooms. The units are located in six reinforced concrete buildings around a landscaped

court and children's play area. Each building has four apartment floors over a parking level one-half story below ground level. Beginning at the second story level each unit has a spacious outdoor balcony with an overhead canopy. Most of the apartments have two levels with an internal staircase permitting the separation of the bedroom area upstairs from the living quarters downstairs. Individual apartments feature all-electric kitchens and wall-to-wall carpeting. The development of 140 units on 99,662 square feet of land has a residential density of 61.2 units per acre. Barton-Western, Inc., financed the housing project under FHA Section 213 for market rate cooperative housing, a special plan of the Federal Housing Administration's mortgage insurance program which secured low down payments and monthly payment charges and which, up until that time, permitted generous purchase terms otherwise unobtainable in the normal market of mortgage finance. Section 213 offered 40-year mortgages as well as other features attractive to families with modest incomes. Down payments for individual apartment units at that time ranged from $1,500 to $2,000 with monthly payment charges at $155 for a single bedroom unit and $226 for a three bedroom apartment. A portion of the monthly payment charge is income tax deductible, (1) as interest on the mortgage loan, and (2) as the proportional share of real property taxes, the same as in the ownership of a single family dwelling. The total mortgage for Midtown Park amounted to $2,968,300.

The architectural firm of Skidmore, Owings and Merrill designed Midtown Park and construction of the housing complex was undertaken by the contractors, Rothschild, Raffin & Weirick, Inc. Completion of the project during 1964 permitted formal dedication ceremonies to occur on May 4, 1964. In dedicating the project, Mayor John F. Shelley spoke of the "constant

search for new ways to develop housing such as Midtown Park for families of moderate income".

During the sixties other special Federal mortgage programs would be enacted to assist city dwellers. Such programs would provide low interest mortgages and, still later, mortgage interest subsidies for housing low and moderate income families. Ultimately, rent supplement programs would assist in the placement of low income households in residential units developed in FHA programs. These subsidy programs, however, were not available during the initial organization and design of Midtown Park.

The Federal Housing Act of 1961 provided low interest mortgages for cooperative housing undertaken by non-profit and limited dividend sponsors. Only a few blocks from Midtown Park the International Longshoremen's and Warehousemen's Union of San Francisco successfully sponsored St. Francis Square, a cooperative housing venture of some 300 family units under Section 221(d)(3) which allowed a forty year, three percent mortgage. This mortgage program substantially reduced the monthly debt service below comparable costs set in a Section 213 program. Although the Section 221(d)(3) program became available at a midpoint during the design and financing arrangements for Midtown Park, Barton-Western Inc., decided not to alter their plans to encompass the mortgage subsidy program. The developer retained his profit status and certain building design elements which were above minimum standards established in the Section 221(d)(3) program.

EARLY MANAGEMENT AND BANKRUPTCY

Management and sales were handled by Wherritt and Brown of Berkeley, California. An initial sales campaign by this firm during the first quarter of 1964 encouraged some 60 cooperative subscribers to pledge down payments for units at Midtown Park. But additional subscriptions were not plentiful and, by August, the sales agent and the developer concluded that to continuue searching for additional subscriptions would place a financial hardship on the housing development. Purchase of Midtown Park by ownership subscription was contingent on a 97 percent sellout within a two year period which, unfortunately, was not attained during the initial sales campaign.

In general it can be said that during this period cooperatives were hard put to get started. Unlike many European countries the United States was handicapped without a central clearinghouse for cooperatives which could assist local cooperative developments in organization, financing, construction and management. Unfortunately, what was gained by the elimination of profit and other advantages, was lost in conflicts, inexperience and lack of cooperation. The FHA programs Section 213 and 221(d)(3) generated greater interest in cooperative housing with the insurance of mortgages for a period of forty years. The Section 221(d)(3) program had the advantage of a lower interest rate which permitted about a 20 percent savings in monthly debt service costs over comparable costs in the Section 213 program. This benefitted Midtown Park's sister housing project at St. Francis Square which became a successful cooperative venture, and may have closed the door to many potential cooperators at Midtown Park.

In September, 1964, Barton-Western, Inc., requested permission from the Federal Housing Administration to cancel the Land Sales Agreement under which existing cooperators were to purchase individual apartment units. A month earlier, Barton-Western, Inc., had requested and received permission from the Redevelopment Agency to waive the stipulation for cooperative housing in the land sales agreement. In November, 1964, the Federal Housing Administration, hoping to bolster the financial sliding of the development, authorized the conversion of Midtown Park from a Section 213 cooperative to a Section 220 rental. Under such a change, the developer refunded down payments on subscriptions for cooperative apartment units and increased the monthly payments, now rents, about 15 to 20 percent.

The conversion to rental housing was, at best, a disappointment to the existing Midtown Park subscribers. Between December, 1963, and the following November, a total of 60 families had moved into Midtown Park, assuming that the development would succeed as a cooperative with all the attendant benefits of equity in a home, income tax advantages, improvement opportunities and easy mortgage payments. Instead, the cooperative subscribers found themselves in the dubious position of paying rent on a month-to-month basis with no assurance that this new arrangement would not continue indefinitely.

Although there were many rumors concerning the changeover, the cooperators were not officially informed until signs announcing rental housing were erected on the site along Geary Boulevard in late December, 1964. In January, 1965, a committee of the former subscription holders

proposed to Barton-Western, Inc. that a portion of Midtown Park, three of the six structures, be moved forward under the cooperative financing arrangement.

In May, 1965, the developers agreed to a partial financial arrangement involving a cost increase of about 10 percent. Unfortunately by that time the number of subscribers had diminished, the general maintenance of the buildings and grounds had been badly neglected, and careless screening of new tenants had added less desirable neighbors to the Midtown Park development. Within six months the goal of cooperative housing at Midtown Park had been shattered.

Poor management, physical deterioration and a high vacancy rate continued to plague Midtown Park during 1965. A total of seven managers paraded in and out of responsible charge of the apartment complex. Rental records indicated that only 85 units were occupied in May, 1965, while nine months later the total number of occupied units dropped to 66. Starting in July, 1965, Barton-Western, Inc. became delinquent in its mortgage payments which prompted the Federal Housing Administration in January, 1966, to file suit in Federal District Court to foreclose the mortgage on Midtown Park.

A court-appointed receiver took over the management responsibility for Midtown Park in February, 1966. The receiver recorded immediately major physical and managerial shortcomings of the apartment complex which had occurred during the preceding year. As noted by the receiver, none of the vacant units were immediately ready for rental although many of them had

never been occupied. All vacant units required extensive housecleaning and many of the apartment stoves and refrigerators had been moved to avoid the task of cleaning. In some cases, equipment had been cannibalized for repair purposes.

Windows were broken in the vacant units and a considerable amount of trash had been left behind by departing tenants. A few tenants who vacated during the night moved the apartment stove and refrigerator with them. The police made numerous calls to Midtown Park during 1965. Weekly raids were authorized during August to curb prostitution, gambling, dope and stolen property. These problems escalated until the police established an observation post in one of the apartments.

Leases, rental rates, security and cleaning fee requirements changed with each new manager, a total of seven during 1965. While a security payment amounting to a month's rent was required, records showed that this deposit was generally deferred. In some cases, tenants paid only a portion of their total rent. If character or credit checks were made of prospective tenants, the receiver found no evidence of any standard procedure.

The court-appointed receiver managed Midtown Park between February, 1966, and July, 1967. At the beginning of the receivership period only ten of the original sixty cooperative subscription holders still remained in the development, but now as renters. In addition to these ten, another 56 units were occupied by other renters and eight other apartment units were used by the management staff for various purposes such as storage and office space.

During the receivership period the appointed manager made significant physical improvements which permitted the renting of practically all of the total 140 units by the end of 1966. A survey taken by the manager in February, 1967, recorded an increase from 66 occupied units at the time receivership was started to 138 occupied units one year later. This marked increase brought the level of occupancy to its highest ever, two units short of total occupancy.

The Federal Housing Administration sought to recover its insurance loss on Midtown Park amounting to about $3 million by placing the housing development on the auction block in June, 1967. Other than an opening bid of $1,675,900 by FHA itself, in order to protect its own investment, no other buyer came forward. The Federal government would thus retain Midtown Park with the expectation of selling the development at a later time to recover as much as possible of the original $3 million owed on the property.

CITY PURCHASES MIDTOWN PARK

Over a period of several months prior to the auctioning of Midtown Park by FHA, various proposals involving the purchase of the development by the City of San Francisco were presented to the Board of Supervisors. Barton-Western, Inc., the developers in default, tried to interest the City in supporting a porposal in which a nonprofit corporation would float a $3.6 million bond issue secured by the City to pay off the existing debt on Midtown Park and operate the apartments as a middle-income housing development. Barton-Western, Inc. owed $3.1 million to FHA. At hearings before the Finance Committee of the Board of Supervisors in March, 1967, most City agencies advised against such a high purchase price. The Real Estate Department estimated the current worth of the property at $1.5 million which was a figure used by FHA when tax relief was sought by and granted to the Federal government during the preceding year.

Further negotiations involving the purchase of Midtown Park by the City of San Francisco continued after FHA tried in vain to sell the apartment complex at public auction. Mayor Joseph L. Alioto's chief housing aide, John H. Tolan, Jr., who replaced T. J. Kent, Jr. as the Mayor's Deputy for Development in 1968, led the discussions with FHA and others to work out equitable arrangements for the purchase of Midtown Park. In March, 1968, Mayor Alioto proposed such a purchase to the Board of Supervisors for the price of $2.1 million for the public purpose of creating a rehousing resource for moderate income families. Negotiating the purchase would include the participation of the City, FHA, a nonprofit corporation, a mortgage company and a housing manager.

In May, 1968, a nonprofit corporation was organized to assist the City in the acquisition of Midtown Park and later became the recipient of the property deed from the Federal government. Contingent on a favorable tax ruling for the nonprofit Midtown Park Corporation by the Internal Revenue Service, the Board of Supervisors approved in principle the acquisition three months later. The Internal Revenue Service granted a tax exemption to the Corporation during the following December.

FHA agreed to deed Midtown Park to the nonprofit corporation for $2.1 million, plus closing costs. A commitment from Penn Mutual Life Insurance Company (mortgagee) with local assistance from the Marble Mortgage Company was made to execute a mortgate for that amount with the proceeds paid to FHA as full consideration for the Midtown Park property. Thus, no down payment was required. The Internal Revenue Service ruled that the interest payments on this mortgage would be excludable from the gross income of the mortgagee. Based on this ruling and the City's guarantee of the rent rolls, the mortgagee established a 5½ percent interest rate substantially under the current market.

Upon receiving title to the property from the Federal government, the Midtown Park Corporation deeded the property with FHA approval to the City. The City took title to the property and leased it back to the Midtown Park Corporation for a term equal to the life of the mortgage. The City relieved the nonprofit corporation of any liability for possessory interest taxes, which would be levied against the property but be paid by the City. In further assisting the Corporation, the City established and set in motion

a review process which would monitor from time to time rental charges at reasonable rates for tenants of moderate income.

The Midtown Park Corporation would be responsible for the disbursement of funds and the contracting of maintenance services. FHA audit and standards of operation would apply to the property and would be controlled by Midtown Park Corporation executing a "regulatory agreement" with FHA. The City Attorney, the Regional Counsel of the Department of Housing and Urban Development, and the attorneys for the mortgagee performed the necessary legal services in the acquisition negotiations without cost to either the City or the nonprofit corporation. No additional attorneys were employed who were not already being compensated.

Residents at Midtown Park, concerned about the proposed provisions of the purchase agreement and the effects on current lease arrangements and rent structures, organized themselves into a tenants organization called the Committee for an Integrated Community. The Committee met with City officials to iron out various aspects of the changeover in ownership and participated in meetings and hearings before the Board of Supervisors. The Board voted final approval of the municipal acquisition of Midtown Park in December, 1968, which included a major participatory effort by the Committee for an Integrated Community.

As part of the arrangement in which the City acquired Midtown Park, the Committee for an Integrated Community won agreement with City officials over the selection of the nonprofit Midtown Park Corporation which was to function as mortgagor. Five board members, nominated from and by the residents of Midtown Park and elected by the organizing directors assumed

control of the nonprofit organization on February 9, 1969. In place of the Housing Authority, which under the original proposal was to manage the apartments, the new Board of Directors executed a managerial contract with the existing resident manager and engaged an outside accounting firm to provide monthly accounting and payroll services. With City approval, the Board of Directors assumed all other professional management duties of the Midtown Park Corporation, previously rendered by a professional realty company. This provided a considerable cash savings to the operation of Midtown Park.

INITIAL CHANGES AND BUILDING IMPROVEMENTS

The Midtown Park Corporation sought some immediate changes to increase safety and revenues. In order to establish an equitable rent schedule a rent adjustment program was implemented with the approval of the Board of Supervisors. This measure raised the rents on 63 apartments about $10, closing a discrepancy on units rented before August, 1967.

The Board of Directors reinstated security deposits of one month's rent for all residents who moved into the apartments after August 1, 1967. The money secured was placed in a passbook savings account to refund deposits when necessary and to secure funds for other needed improvements.

An initial safety measure authorized by the Directors was the installation of locks on all outside entrances to apartment hallways and doorbell connections for all apartments. This bell and lock installation costing about $4,000 was purposely a one-way system. Although inidvidual apartments can be signalled from the outside, the resident can only permit direct entry into the hallway by personally opening the outside door. Securing the outside doors has almost entirely eliminated forceable entry and burglaries. Before this installation, frequent break-ins occurred as individual apartments were easy targets for prowlers who could move through the buildings at will. The individual apartments were initially protected by simple door locks, then dead bolt safety locks, and finally the installation of metal plates. The unwanted intruder could not be deterred until all interior common areas became off-limits to non-residents. The measure

to increase security for all building interiors has, in turn, reduced building maintenance costs. The Midtown Park Corporation has reduced expenditures by confining security guard services to the garage and exterior landscaped areas and cutting labor costs due to littering and vandalism.

Early in 1970 the Board of Directors recommended a rent increase to assist the Corporation further in meeting its financial obligations. The Corporation recommended that the rent for each apartment should be increased by $20. The City recommended an additional $5 to increase surplus funds for the development. Both recommendations yielded rents substantially below economic rents for comparable housing accommodations in the area. (They were, in fact, generally comparable with rents under the Section 236 interest-subsidy program.) To assist the Finance Committee of the Board of Supervisors the City's Real Estate Department prepared comparative data on rent schedules indicating potential surpluses of $12,000 and $20,000 respectively, which would be paid in part to the City in lieu of taxes. The Board of Supervisors approved the higher of the two rent increase recommendations in March 1970.

The equalization and increase of rents, the trimming of management fees and a reduction in labor and security costs have for the first time provided an immediate and achievable surplus of funds. Surpluses would be spent on needed physical improvements generating additional economies and later would reimburse the City of San Francisco for the whole or part of the amount in lieu of taxes. By January 1972 the Corporation had earned sufficient income and completed enough physical improvements to repay the

City a partial tax payment of $10,000. Sufficient assets appear to be available during 1973 to repay the City an additional $10,000. (Appendix A provides a financial reporting for Midtown Park as of June 30, 1973.) Eventually Midtown Park would be placed back on the municipal tax rolls, paying its way in full long before its complete discharge of debts owed. The actions of the Midtown Park Corporation are playing a major role in this endeavor.

CURRENT PROGRAM OF PHYSICAL IMPROVEMENTS

The Board of Directors of Midtown Park immediately set to work to tackle some long-standing and gnawing physical problems. In many cases the previous managerial services had applied only patch-work repairs on jobs requiring more extensive work. Replacement parts were ordered only in rare instances. The Board of Directors, however, pursued a program of preventive maintenance which improved the physical condition of the buildings and increased the efficiency of plan operation and management.

Heating System

The heating system required immediate attention. Two of the four boilers had malfunctioning filter settings, causing an unnecessary buildup of calcium deposits and an increasingly costlier efficiency rating.

New parts and their installation cost between $2,000 and $3,000. This repair, plus continuous maintenance by a trained resident equipment specialist, has saved about $1,500 annually in heating bills. A program of preventive maintenance keeps the boilers in excellent condition and only repairs to the boiler plates require outside technical assistance.

Laundry Facilities

A concessionaire owned the laundry facilities housed in two rooms attached to basement garages. The Board of Directors found this arrangement unsatisfactory as the meager cash return to Midtown Park, after the

concessionaire deducted his overhead and profit, was not sufficient to cover the cost of water and electricity. The residents overtaxed the existing machines and constant breakdowns drew mounting repair bills. The machines were too small, particularly the electric dryers, to handle the typical washday needs of Midtown Park residents.

The Directors terminated their agreement with the laundry concessionaire. New and larger machines were purchased. Gas dryers replaced the smaller electric counterparts and higher voltage connections were installed for greater electric power needed by the larger machines. The installation of special devices to secure the cash boxes was also made. Actually, the cost of a new machine was not much higher than the mounting repair costs on the concessionaire's machines. A new machine costs about $300 while major repairs on an existing machine cost about $110.

Owning and servicing its own machines, the Corporation has grossed an average $300 per month instead of $100 per month under the arrangement with the concessionaire. Repair costs have been cut to a bare minimum by the maintenance staff, close to the actual wholesale price of the replacement parts. Instead of costing over $100, the average repair cost now ranges between $15 and $20. All repairs on wiring, thermostats and timing devices are performed in-house while the servicing of the gas dryers is undertaken from the convenience and protection of an adjoining room.

Interior Improvements

The Board of Directors next turned their attention to numerous repair

and maintenance items facing individual apartments and common interior spaces. In some instances, hard wear and tear on plumbing fixtures required the replacement of the original minimum quality faucets, piping and other plumbing hardware. Replacement fixtures have been of a higher durability than the originals to prevent future breakdowns and water leakages. As time permits, the maintenance specialist has been enlarging the tile surfaces and resealing exposed edges between tile and porcelain in the combination bath-shower stall area of the bathrooms in order to minimize water seepage and splashing on unprotected areas.

Wall-to-wall carpeting in the apartments and in the hallways was threadbare after only a few years of constant foot traffic. The original owner had installed rugs of a minimum quality over an inferior jute padding. The hallway carpeting was particularly in need of attention as, prior to the locking of outside entrances in 1969, a constant stream of non-residents passed through the hallways, utilizing the interior of the buildings as a convenient thoroughfare between adjoining streets.

The Board of Directors have been replacing worn carpeting as surplus funds become available to make purchases at wholesale prices on economical quantities. During 1970 the Directors at Midtown Park appropriated a total of $16,411 from surplus funds for replacement carpeting and carpet padding. It is estimated that it would cost $66,000 to recarpet all interior areas of Midtown Park. This work will be completed as surplus monies become available.

The Directors approved other measures to upgrade the building interiors for the comfort and safety of the residents. The garbage chutes were

repaired so they would close automatically. New fire extinguishers were installed throughout the buildings to expand fire fighting capabilities to electric fires. The repainting of all interior hallways and stairwells with latex paint and the installation of fluorescent lights have brightened up considerably the common interior areas.

Building Exteriors and Landscaping

Practically all of the outside patios were tilted inward causing water collection and some seepage. As time permits the patio floors are resanded and a fresh aggregate is applied to correct these inward slopes. The concrete exteriors need some sealing and a fresh coat of paint. The Board of Directors purchased paint and painting equipment at wholesale prices and utilized their own maintenance staff to reduce labor costs by over 50 percent.

The original landscaping was in a deplorable condition when the Midtown Park Corporation took over management responsibilities in 1969. Trees and shrubs were removed or dying, the grass areas were weedy, bare spots were widespread; the total area displayed a general hit and miss program of landscape maintenance. To reverse this trend members of the Board of Directors worked with the Horticultural Department at San Francisco Community College to develop a new landscaping design and provide the assistance of directing the installation of plant materials. A gardener currently assures quality maintenance under general supervision by the Board of Directors.

To curtail vandalism in the basement garages, the Board of Directors has made arrangements for the installation of a metal framework screen

enclosure along the sides of the buildings and automatic doors at the entrances. In addition, entrance gates will be placed between the garage stairwells and adjoining walkways thus completing the security program and permitting only residents and authorized personnel into the garages. Currently the use of the shrub, acacia baileyana, along the street side of the buildings deters the casual passerby from entering the open garage areas and provides a handsome landscaping material with a flash of yellow color in the springtime.

Other physical improvements to the building exteriors have been the installation of roof gates required by Penn Mutual Life Insurance Company, the expansion of exterior lighting for greater pedestrian safety at night, replacement of mailboxes and the extension of protective iron grills to guard postal deliveries, and the gradual replacement of awning canvasses due to damages caused by winter storms during January 1970.

A PROPOSAL FOR HOME OWNERSHIP

At present the residents at Midtown Park are considering purchasing the development from the City for conversion to condominium housing. The resident organization, Committee for an Integrated Community, has completed initial surveys of residents to ascertain support for a program of home ownership. After an analysis of a fifty percent sample there appears to be sufficient interest and financial ability for such a conversion. This move, if carried through to a successful conclusion, would fulfill the original purpose of Midtown Park as established some ten years ago. It would also encourage the City to arrange other financial programs to rescue housing developments in default and assist local housing objectives such as expanding housing resources for low and moderate income families. Condominiums have certain advantages over cooperative housing. A cooperative must depend upon the continual ability of all its members to meet fixed costs. If some of the cooperators default, the remaining members must pick up the tab to maintain monthly mortgage payments. Thus, a major deterrent to cooperative housing and investment has been the blanketing of a single mortgage over all the units in a development. In a condominium arrangement each cooperator has title to his own unit and the default of one or more units would not affect his separate investment. FHA Section 234 insures cooperative housing ventures for a period of forty years and would be one method by which the Midtown Park tenants might purchase the housing development from the City.

CONCLUSION

Midtown Park was an early experiment in FHA insured cooperative housing for moderate income families which failed to attract sufficient cooperators in the initial rent up period. Whether it was a poor reading of the market or a lackluster sales campaign, the developer did not pursue the cooperative venture but sought early relief with FHA permission to convert the project from cooperative to rental housing.

Conversion to rental housing did not relieve a continuing high turnover and vacancy rate. The developer tried various and numerous management operations to reverse a mounting financial deficit but the concomitant problems of poor management, vandalism and the departure of many of the original co-op subscription holders proved overwhelming. Failure of the developer to meet mortgage payments led to foreclosure by FHA and the placement of Midtown Park in receivership. FHA, in order to recoup a portion of the loss, placed the development on the auction block. But no bidders came forward and FHA retained ownership of the property.

With the acquisition of Midtown Park by the City and County of San Francisco, the mounting financial indebtedness and the trend toward physical deterioration have been reversed. Municipal ownership and subsequent leasing to a corporation of residents have provided the necessary positive cooperative effort to attain financial solvency and reinstate a vital housing resource for moderate income families to the City's inventory. This arrangement has proved to be a successful planning partnership between the City and the Midtown Park residents.

Municipal acquisition of Midtown Park is a temporary arrangement. The City assumes the responsibility of the possessory interest tax and establishes reasonable rents for moderate income families. This is a modest public subsidy to redeem 140 units of family housing. Since public acquisition in 1969 the Midtown Park Corporation has secured the property against theft and vandalism and completed or programmed those necessary improvements which have upgraded the development. These improvements plus a pride in tenant management have brought the residents together into a tightly-knit and cohesive community organization providing Midtown Park with a strong measure of stability and cooperation.

The resident organization, the Committee for an Integrated Community, has played a central role in the rescue mission. The organization includes cross-section of professional skills as well as some of the original co-op subscription holders who have elected to remain at Midtown Park. It is this combination of professional skills and proprietary concern that has placed the development on a sound financial footing.

This resurgence will continue. The Committee is currently weighing the feasibility of converting Midtown Park into condominium housing, and surveys have indicated that sufficient support and financial capability exists among present tenants. Such action would return Midtown Park to the private sector and encourage other public efforts to rescue housing developments in default, and in so doing, expand housing resources in the City.

MEMORANDUM

OFFICE OF THE MAYOR
SAN FRANCISCO

To: JOHN H. TOLAN, JR.
Deputy for Development

Date September 18, 1973

From: WILLIAM S. KENNEDY
Financial and Management Specialist

Subject: Midtown Park Corporation, dba
Midtown Park Apartments

In accordance with your instructions, I have prepared (shown below) a Balance Sheet as of June 30, 1973 and an accompanying Statement of Profit and Loss for the six months ended on that date for the subject entity.

The figures were supplied unaudited by the bank, and as I did not have access to the accounting records, I am in no position to vouch for their accuracy. I did, however, compare them with those on the December 31, 1972 statements, and they appear reasonable with one or two exceptions. Therefore, adjustments have been made for these. It seems, for example, that no accruals were set up covering audit fees, fire insurance, or depreciation; consequently, I have done so. In addition, to be conservative, I wrote off a suspense item of $4,384.15.

Following are the details of the changes to the bank's Profit and Loss figure:

	Profit Per Bank		$ 23,733.24
Less:	Estimated for:		
	Audit Fee	$ 2,000.00	
	Fire Insurance	4,500.00	
	Depreciation	400.00	
		$ 6,900.00	
	W/O Suspense A/V	4,384.15	
			11,284.15
			12,449.09
Less:	Provision for Payment to City		10,000.00
	ADJUSTED PROFIT		$ 2,449.09

BALANCE SHEET

June 30, 1973

ASSETS

Cash in Banks		$ 16,733.68	
Accounts Receivable	$ 7,421.44		
Less: Res. for Doubtful Accounts	-0-		
		7,421.44	
Mortgage Escrow Deposits		10,745.58	
Tenants Security Deposits		25,334.33	
Loan Trust Fund		12,934.12	
Replacement Fund		20,407.81	
			$ 93,576.96
Leasehold Improvements		7,295.23	
Furniture and Equipment		4,340.90	
		11,636.13	
Less: Reserve for Depreciation		6,396.36	
			5,239.77
Total Assets			$ 98,816.73

LIABILITIES

Accounts Payable			$ 30,648.95
Provision for Payment to City			10,000.00
Net Worth			
Balance 12/31/72		$ 55,718.69	
Profit 6/30/73		2,449.09	
			58,167.78
Total Liabilities			$ 98,816.73

STATEMENT OF PROFIT AND LOSS

FOR THE SIX MONTHS ENDED JUNE 30, 1973

INCOME		$ 160,157.12
EXPENSES		
Administration	$ 9,224.67	
Operating	30,861.54	
Maintenance	22,726.29	
Other	94,895.53	
		157,708.03
NET PROFIT		$ 2,449.09

In my opinion this operation can bear the payment to the City of $10,000 as was done last year, and you will note I have provided for it in the accounts. You will also note the above Balance Sheet does not reflect an asset for the value of the building or a liability for the mortgage against it which is correct seeing the corporation is not the owner. However, these items are not carried on the City's Accounting Records either, eventhough the Real Estate Department lists the building as City property.

W. S. KENNEDY
Financial and Management Specialist

cc: Messrs. D. Macris
N. B. Cooper
W. Wortman
J. Jaquet - HUD
R. Hersey - HUD
Dr. E. Tapscott - HUD

Senator PROXMIRE [acting chairman]. The committee will come to order.

Chairman Sparkman has left to answer the quorum, but meanwhile we will proceed.

Our next witness is the former distinguished Congressman from New York, a good friend of the committee, James Scheuer, now of the National Housing Conference.

STATEMENT OF JAMES H. SCHEUER, PRESIDENT OF THE NATIONAL HOUSING CONFERENCE, ACCOMPANIED BY A. M. PROTHRO

Mr. SCHEUER. Mr. Chairman, I am delighted to be here today, and I have with me Mr. Prothro, who served for many years as General Counsel to the FHA and then Deputy General Counsel to HUD, and he is now practicing law with Krooth & Altman, works around the clock. He also works around the year with NHC, and it is a great pleasure to have him with me.

Senator PROXMIRE. Very good.

Mr. SCHEUER. I have a statement that I want to submit for the record.

Senator PROXMIRE. The entire statement will be printed in full in the record (see p. 149).

Mr. SCHEUER. We will be glad to answer questions.

Let me just hit three points hard to start out with. No. 1, as to the question of equitable treatment for housing programs. It is true we have not devised a way of housing all the poor well, nor have we devised a way of educating all our people with good education or providing all our people with superior meal service, yet we do not close down our schools and hospitals, because we fail to achieve design and delivery systems of other public services for all of the theoretically potential constitutents.

And to my mind, it is a curious anomaly to me as to why, for the first time, this administration has said, because we cannot do the whole job now, we are not going to do anything.

To me that symbolizes the administration's apparent longing to get out of the housing business. I think that equitable treatment philosophy should be looked on for what it is worth. Somebody ought to say, "The Emperor ain't got no clothes on."

I have heard criticism of 235 and 236. We have heard the word "mismanagement" and so forth. Housing programs, unfortunately, tend to reflect the human condition and people are not perfect. Tenants are not perfect, project owners are not perfect, and government administrators are not perfect and government is not perfect.

I have been a critic of housing programs for a generation. Most of the housing programs that we have now are serving the American people very well; and millions of American families over the last generation, and over the close to 40 years that we have had housing programs, have led lives that were enriched and enhanced, far happier, far more satisfying, with far better environments for their kinds to grow up, than they would have had, had there not been these Federal housing programs.